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THE MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM (ASAP)

A MID-TERM EVALUATION

"THE POLITICAL -- ECONOMIC INTERFACE"

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This essay examines the political economy issues involved in the Malawi Agricultural Sector Assistance Program (ASAP), focusing on the ways in which the evolution of the program has brought a set of political - economic linkages into sharp relief. The essay begins by exploring the role of tobacco in the informal side of the Malawian political system. I then look at the political context of the ASAP program during its design phase in 1990 and 1991, and how that context shaped the content of the program. The third section presents the salient features of the political context of ASAP after nearly a year and a half of the program, and begins to address the linkages between the impact of the program and the broader political changes that have been put in motion in Malawi by donor pressures. The next section explores several possible scenarios, both positive and negative, for the evolution of the program. I then undertake a stakeholder analysis of how the program has affected, and is likely to affect, a wide range of interests and groups. Finally, the essay concludes with a look at how the evolution of current political changes in Malawi might affect the program, and vice-versa.

Tobacco and Politics in Malawi

Malawi's relatively strong record of economic growth and the country's general adherence to prudent macro-economic policies have not been translated into improved incomes and better living conditions for the bulk of the country's population. The reason for this lies in the structure of the Malawian rural economy and the response by the country's political leadership to the opportunities for large incomes from the production and export of tobacco. Land in rural Malawi has been divided between an estate sector defined by leasehold and freehold tenure and a smallholder sector defined by communal tenure. The benefits from the high returns to tobacco (especially, in recent years, burley tobacco) have since the 1970s accrued overwhelmingly to agricultural estate owners as a result of a set of government policies and regulations. These policies and regulations have, in sum, reduced the costs of the various factors of production in

estate operations while at the same time restricting new market entrants in order to maintain substantial economic rents. To oversimplify, the minimal cost of estate leases has lowered the cost of land; subsidized credit has lowered the cost of capital; and, especially, restricted access to production and marketing of tobacco has lowered the cost of labor. As long as maximizing estate profits remains the operational goal of government economic policy, the bulk of the country's population will remain impoverished and will be denied the benefits of economic growth.

Malawi's success at estate-based tobacco production has played a major role in shaping the evolution of the country's political dynamics. Entry to the estate sector has been heavily controlled by government. Burley tobacco plays an important role in the domestic political system, and political influence in the tobacco industry has been a key to maintaining Malawi's well-known societal discipline. Control over access to high-value tobacco, through the estate and tobacco licensing processes, has been perhaps the major instrument of political patronage and control for the Malawi Congress Party elite. In a country in which wages are low, business opportunities are limited, and general corruption is frowned upon and penalized, access to growing and marketing burley tobacco is the main path to higher income levels. In Malawi's public sector and parastatal-dominated economy and society, access to an agricultural estate lease, and subsequently to a burley tobacco quota, has been the reward for hard work and loyalty in both the MCP and the civil service.

Public policy has been driven by the goal of maximizing the profitability of tobacco estates. Support for such a policy in the middle and upper levels of the bureaucracy has been sustained by the fact that the individuals involved either were already, or would become, direct beneficiaries of the policy. As a system of political patronage and control, the Malawian "tobacco estate" system was less economically irrational than parallel systems in other African countries. Incentives for production, and export, were maintained; and the bureaucracy retained, for the most part, a task-orientation. The problem with the system, of course, is its strong impetus to inequality and to reducing the living standards of the poor.

In the 1980s, the profitability of burley tobacco in Malawi made it "the biggest game in town", drawing a whole set of resources, both economic and political, towards the sub-sector and creating disincentives for any serious diversification efforts. Thus, burley tobacco has had substantial "Dutch disease" effects, increasing the dependence of the export sector upon a single commodity and reinforcing the already existing contrast between a highly developed, specialized and integrated market system for tobacco and a very

weakly developed, non-specialized and non-integrated market structure for virtually all other sectors of the economy. As long as the barriers to enter burley production and marketing were maintained, the "Dutch disease" impact on market structure tended to reinforce the contrast between the tobacco sector and the rest of the economy.

But, the "Dutch disease" effects also over time undermined the viability of the government's use of the estate license and burley quota as a political resource by generating overwhelming political pressures for expanding access to the crop. Managing these pressures, while at the same time maintaining the instruments of control, especially the burley quota system, has been increasingly problematic. These dilemmas are seen most vividly in the changing role of TAMA, the Tobacco Association of Malawi. Until the early 1980s, TAMA was essentially a producers' cartel dominated by the large European growers. In this role, its primary aim was effectively controlling and limiting production. But, as the make-up of the estate sector evolved, with the growing number of MCP "cronies" entering the system, TAMA was increasingly dominated by this group, whose agenda was as much political as economic. The organization's original function became diluted by its growing political role as an instrument to accomodate local political pressure. While TAMA continued to rhetorically express concern about overexpansion and the need to control production, it in fact became a prime intermediary of the process of expanding burley production. For the past several seasons, the quota allocation mechanism has become increasingly disconnected from actual volumes of burley tobacco produced and marketed. TAMA's cartel function of limiting production has effectively given away to its political function of accomodating pressures to expand the numbers of producers. It is thus appropriate that the former ministry of agriculture official responsible for quota allocation has recently become Executive Secretary of TAMA.

In the past decade some 13,000 "graduated small-holders" have been able to transform their traditional holdings into estate land. This process of estate formation has allowed those small-holders most capable of producing burley (and who could most easily and effectively organize to politically challenge the existing arrangements) to become essentially junior partners in the estate system. While easing the political pressures, this "opening-up" of the estate sector further fuelled land pressure and actually exacerbated the problem of limited small-holder access to productive land. Under pressure from the World Bank, the alienation of customary land into estates has been severely cut back in recent years, closing off this political "escape valve" as a mechanism for accomodating pressures to expand access to burley. Not surprisingly, there has been a sharp increase in the volume of illegal burley production. A combination of the strong

international market in the late 1980s and early 1990s and the adverse impact on yields of the drought during the 1991 and 1992 season has limited the cost of the loss of control over production. But, in 1993, the future of the tobacco industry, and its relation to the political system, are both very much in question as the breakdown of the traditional political role of burley interacts with the process of political liberalization.

The Political Context of ASAP, 1990 - 1991

Design of the ASAP program was initiated by USAID/Malawi in 1990. The program was closely coordinated with the World Bank's Agricultural Sector Adjustment Credit (ASAC). The donor political context for both ASAC and ASAP was the increasing recognition on the part of the donor community that the impact of donor-sponsored development efforts in Malawi -- from the infrastructure projects of the 1960s to the integrated rural development schemes of the 1970s to the structural adjustment efforts of the 1980s -- had largely failed to improve the standard of living of the vast bulk of Malawi's population, who are farmers on the customary lands. New data on malnutrition, growth stunting, and low levels of social service provision was generating pressure on both the Bank and AID to address these issues. The timing of the ASAC and ASAP programs coincided with rising political pressures on donor institutions to address the so-called social dimensions of adjustment.

For both the World Bank and AID, one of the major lessons of economic reform efforts in Malawi in the 1980s had been the need to take equity issues into more explicit account in the design of policy reform programs. If the limitations of infrastructure projects led to the integrated rural development programs of the 1970s, and the limitations of those programs led to a focus on policy reform in the 1980s, the limits of the policy reform efforts to adequately address the mounting equity problems of Malawi have led donors to promote substantive structural change. Given the high returns to burley tobacco and the "Dutch disease" effects that burley was having on other parts of the economy, it was inevitable that donor equity concerns would lead them to efforts to open up access to the production and marketing of burley to farmers on the customary lands.

Both the Bank and AID faced a number of difficulties in designing programs that substantially focused on the tobacco sector. First, neither institution had focused their previous work in the agricultural sector on tobacco. Knowledge concerning the estate sector, in particular, was very limited. Nor did either institution have a good understanding of the operations of the tobacco industry, and especially, of the manner in which it was articulated to the country's political

system. While the Bank moved ahead on ASAC despite these constraints (and faced some difficulties because of them), AID attempted to address the weak analytical base through a series of studies that preceded the ASAP final stage of design. Especially important was the examination of the leasehold estate subsector that led to the "Beyond Dualism" paper by Richard Mkandawire, Steve Jaffee and Sandra Bertoli. This paper detailed the very substantial evolution of the estate sector under the political effects of the burley Dutch disease. But, while AID did learn a lot about the social structure of the estate sector, and about the economics of burley from a producer perspective (through the work of Jim Fitch and Joe Carvalho), it learned much less about the operations of the industry as a whole.

Part of the problem was the attitude of government. At the time of the ASAC and ASAP design, the Malawi government was not at all pleased that the issue of small-holder access to burley tobacco had been placed on the agenda of the World Bank and AID. One of the responses by government was to limit any serious engagement by senior technical staff with either the Bank or AID in designing the specific elements of the programs. This made the articulation of a coherent and sensible program by the donors very difficult. Essentially, it had been made clear by the GOM that serious reform of the tobacco sector was not on the agenda. The response to this from both the Bank and AID was to develop a "foot in the door" strategy based upon rather simple notions of creating as much of an opening as was possible for the smallholder.

The ASAC "pilot scheme" for the 1990-1991 growing season marked the initiation of this approach. At one level the ASAC pilot burley scheme was a success. The burley produced was of generally high quality, suggesting that government and industry fears concerning possible loss of quality if access to burley was broadened were probably exaggerated. But the experiences under the ASAC pilot scheme also underscored the political sensitivity of the issue. The ASAC pilot scheme was plagued by administrative glitches. More importantly, the initial ADMARC price offered to producers was far below what farmers had been led to believe the price would be, and was well below their production costs. Many observers (including some senior Bank officials), believed that the pilot project was intentionally and systematically derailed, either by GOM technocrats or by high political authorities. The Bank insisted on a substantial second payment from ADMARC, generating a sharp conflict between the Bank and the GOM, and a substantial hold-up in tranche disbursements.

At a key moment, AID involvement through the ASAP program reinforced the very tentative opening in smallholder burley that had been achieved by the Bank. In mid to late 1991, AID

succeeded, through high level policy dialogue, in convincing the GOM that the overall scope and size of the AID portfolio in Malawi would be put at risk in the absence of effective cooperation in ASAP. While this AID initiative did not lead to real cooperation from the government in putting the final details on the ASAP program, it did create the political space needed for the program to get off the ground. The program was signed in September, 1991. AID resources were used to provide the finance needed by SACA to ensure that adequate credit was provided to small-holder farmers, and the auction floor marketing channel was, for the first time, made available to organized burley clubs of participating small-holders on customary land.

The ASAP program was designed in a context in which serious reform of the structure of the agricultural sector of Malawi was not really on the agenda. In that context, the approach taken by AID to focus on extending the "foot in the door" generated by the World Bank ASAC program was appropriate. This meant that many issues, both having to do with the burley tobacco subsector (such as the reform of the quota mechanism) and with diversification of production and marketing (such as the regulatory constraints) were not effectively considered in designing the policy matrix for the program. But, in the absence of more political commitment by the GOM authorities and by more direct cooperation and input by senior government technocrats, these issues could not have been effectively addressed and would have been something of a diversion to the main thrust of the program. When fundamental reform is not the order of the day, donors such as AID are right to push to open up the system as much as possible, and hope for the best.

Due to specific nature of the reform pursued under ASAP -- the opening up of production and marketing of burley to smallholders -- the ASAP program has become a partial exception to the general rule that the success of donor-supported policy reform efforts depends upon the commitment of government to the reforms. In the case of ASAP, the government was clearly not fully committed to the reforms, but was willing, for reasons discussed below, to allow them to take place. Because of the profitability of burley, and the desire of smallholders to grow it, the reform was able to proceed and gain momentum even in the absence of governmental commitment.

But why did the GOM allow the program to proceed if, as discussed above, it challenged major elements of the political status quo, and essentially was opposed by the ruling elite? I believe there are four basic reasons:

First, at the time of the ASAP design, the outlook for the international tobacco market appeared rosy. The GOM might have confidently felt that the conflicts between the interests of

the estate sector in expanding production and the opening up to the smallholders could be minimized. This was probably particularly important in limiting the opposition that TAMA gave to the program.

Second, with the suspension of new estate creation due to the increasing pressures on the communal lands, the old political uses of the estate license and burley quota were already wearing out. Many of the "graduated smallholders" that entered the estate sector in the late 1980s did so with limited, and mostly local level, political connections. The system of political rewards was no longer the main factor driving the expansion of burley production.

Third, the smallholder burley program did offer some political payoffs to the GOM, in that it maintained a safety valve to accommodate the political pressure to expand access to burley production and marketing.

Fourth, the government was wary about pushing its confrontation with the donors too far. While the balance-of-payments situation at the time of the ASAC and ASAP designs was still pretty good, the GOM depended upon donor resources for most of its development budget. Policy reform, in general, involves a good deal of political brinkmanship by the donor side in order to generate the credibility from which leverage derives. USAID/Malawi appears, in retrospect, to have played the brinkmanship game with considerable skill, and thus gained the opportunity to effect an important opening with far-reaching longer-term implications.

The Political Context of ASAP, 1993

The political context within which the ASAP program is operating in 1993 is substantially different from that of the time of the program's design. The one major continuity is the international dimension; the pressure on donors, including AID, to aggressively promote an equity-oriented agenda in Malawi. On the domestic side, much has changed. One big factor is the success of the smallholder program itself; a second is the breakdown of the existing procedures in the system; a third is the broader process of political change.

The creeping loss of control over the levels of production, that was already evident during the design phase, has become a major feature of the sub-sector. For this year's crop, while the industry expressed a desire to market a crop of about 95 million kilograms of burley, the quota distributed was some 50% greater, and actual production levels are estimated to be anywhere from 120 to 150 million kilograms. The massive increase in quota is the result of a combination of the

incentives within the quota system for expansion, a growing level of personal corruption in the quota allocation process, and, possibly, a desire to place a large volume of quota into the hands of estate owners to diminish the ability of the quota allocated to smallholders to expand in the future.

In discussions with various members of the tobacco industry, the argument is often made that the smallholder burley program is a major, if not the major, source of overproduction. TAMA has been especially vocal in presenting this argument. While there is little doubt that there is substantial illegal production of smallholder burley, there is little empirical evidence that this is the main part of the problem. The trajectory of expansion of estate production remains steeper than that of smallholder production. Overproduction above the industry-estimated levels for effective marketing have been primarily driven by the lack of control in the quota allocation system. The vast bulk of the increased quota has gone to the estate sector, not into the smallholder program. While there is extensive illegal production of smallholder burley in Kasungu ADD, an estimated 7 - 8 million kilos over and above quota, the levels of overproduction are much lower in the rest of the country. Nor is it certain that the smallholder sector is expanding as rapidly as the data suggests. One of the findings of the earlier research is that, even before the smallholder program was initiated, there was substantial illegal growing on the customary lands.

The smallholder burley program has had an important political impact in making the operations of the burley industry much more transparent. The success of many of the clubs participating in the program in marketing their crops through the auction floors and receiving substantial cash incomes has raised overall consciousness of the lack of equity in existing arrangements, and of the viability of small-holder models as options to both the tenant system or the direct labor system as practiced in the estate sector. There is little doubt that this will increase the political pressures for expanding smallholder access to the crop. In parts of the country, especially Kasungu, this is a major source of the expansion of illegal smallholder production.

The political impact of the success of many participants in the smallholder program is multiplied by the new political conditions generated by liberalization. For the first time, open discussion of political and social issues is allowed. For the first time, channels for the expression of demands other than the local MCP structure have emerged. The ability of the political structure to constrain the flow of information has been substantially weakened. It is not unlikely that participants (and non-participants) perceive the burley program

as part and parcel of the weakening of the grip of the existing system. As long as the political process remains relatively open, there will be powerful incentives for both incumbents and challengers to support the program.

Perhaps the most important change in the political context of ASAP is that, unlike at the time of design, it appears that real structural reform of the tobacco sector may be emerging on the agenda. If so, this would give AID the opportunity of moving beyond the "foot in the door" approach that was correctly taken in the ASAP design to an approach of working with government to actually restructure the tobacco production and marketing system to make it more equitable and sustainable, both economically and politically. What is the evidence for this assertion? First is the widespread belief that the current system is out of control. In general, a necessary precondition for reform is the broad perception that the current system is not working. Second is the fact that, given the suspension of new estate formation (and the unlikelihood of its resumption on anything but a very small scale), the old political reward system is dead. Third, and a reflection of the second, are recent changes in the ministry of agriculture, especially the appointment of a respected technocrat to manage the quota allocation process and the decision to decentralize the quota allocation process to the ADD level. These reflect a new openness to issues that were hitherto impossible to address. Finally, if the political liberalization process is even partially sustained, the new circumstances are likely to demand a more transparent and politically-defensible system of regulation and control in the tobacco industry.

Scenarios for the Evolution of the Smallholder Program

Thus far, the smallholder burley program has achieved considerable success in increasing the incomes of participants in the burley clubs and in infusing cash into poor communities on the customary lands. But, how sustainable is the program.

The success of the program has coincided with an emerging crisis in the Malawian economy and within the tobacco industry itself. Throughout the decade of the 1980s the economy has grown increasingly dependent on burley exports as a source of income. Rather than serving as a basis for the diversification of the economy, burley has spurred the growth of the "Dutch disease." Economic and human resources have been increasingly attracted into this sector of the economy, even though it is vulnerable to the vagaries of the international tobacco market. The impact which lowered burley prices would have on the economic fortunes of highly-leveraged estates as well as on the processing business is already the subject of speculation as

the outlook for 1993 suggests a bumper harvest. The spectre of additional cigarette taxes in the US and success in anti-smoking campaigns elsewhere further fuels these concerns.

Will a growing sense of economic crisis -- which might be engendered by a price fall in 1993, for example -- threaten the smallholder program? Is the program vulnerable to political reversal? What is the scenario for the program evolving in such a way that the larger goals and purposes of the ASAP program are achieved. While predicting the future is always risky, there are advantages to thinking through the possibilities as a matter of contingency planning. Several scenarios might be sketched out. The first three are negative scenarios, moving from the least likely to the more possible. The fourth is a positive, perhaps ideal, scenario.

A Political Clampdown

The first negative scenario is that there is a political clampdown on the smallholder program. In such a scenario, the smallholder program is increasingly blamed for the crisis in the burley industry, TAMA aggressively pushes to limit the program because of the threat it poses to its members, and ADMARC argues that the smallholder program is limiting the profitability of its commercial operations in other tobaccos, which in turn weakens its financial capacity to perform its other functions, particularly in purchasing and distributing maize, the staple food of all Malawians. As a result of these pressures, the government moves either to suspend the program, restrict its expansion, and/or limit the smallholders to the ADMARC marketing channel.

While not impossible to conceive, such a scenario appears highly unlikely, for several reasons. The first is that, as long as the returns to burley are as high as they are, the political pressures for expanded participation in production and marketing will be overwhelming. It was these pressures that led to the massive expansion of the estate sector by "graduated smallholders." The political system, which was much tighter five years ago, could not contain these pressures, nor did it attempt to; it is unlikely to be able to today when the incentives to attempt such an effort are even weaker. Especially in the context of a political opening, the political costs of a clampdown would be exorbitant. In fact, the political dynamics lead in the opposite direction.

The second reason why the political clampdown scenario is unlikely is that the political reward mechanism that drove the old system is much less important today, and it is difficult to envision its re-emergence.

Third, a growing number of industry participants perceive the increasing evolution of burley towards the smallholder sector as not unattractive. It implies a shift of production to lower-cost, more efficient producers and would, therefore, permit Malawi to expand its customer base. When prices dropped in 1989, for example, Malawian exporters found themselves with buyers who had not previously been interested, and some of those stayed in the market. The buying and processing segments of the industry would, therefore, be likely to oppose a political clampdown.

Finally, the political clampdown would generate a crisis with the donor community and further cuts in aid levels. Given the current balance-of-payments crisis, the government has a powerful incentive to avoid such a crisis.

An Economic Collapse in the Industry

A second, somewhat less implausible, negative scenario is that the crisis of overproduction leads to a combination of a price and a quality collapse. The price collapse initially derives from production in excess of what can be marketed and buyers' reluctance to accumulate stocks or develop new markets. The price collapse then leads to the exit of higher-cost but higher-quality producers, leaving the field open to small estates and smallholders who are less able to assure continued high quality. Ultimately, over a several year period, this leads to a contraction of the industry in Malawi and a loss of international reputation and market share.

This is an interesting scenario, because not all of its implications are fully negative. A lessening of the returns to burley would almost certainly be a good thing for Malawi, diminishing the "Dutch disease" distortions that make diversification so difficult. In addition, smallholder producers are the least vulnerable to a price collapse. Even smallholders who are marketing through the ADMARC channel, where the returns are much lower than auction floors, are finding burley production a profitable endeavor. But the problem with the scenario is that there is very little reason to believe that overproduction will lead either to a collapse in price or to a dramatic loss in quality. Over the past several years, there has been very little connection between expanding production and price level nor between expanding production and overall quality. Given the continuing depreciation of the Malawi Kwacha, it is not easy to envision a massive domestic currency price collapse.

Organizational Failure

The third negative scenario is that organizational failure in the Ministry of Agriculture and, perhaps, in the newly-established Rural Finance Company, precludes the effective expansion of the smallholder program. This is the most plausible negative scenario, but the one which AID has the greatest ability to influence.

In such a scenario, a combination of the following occur:

The regional ADDs become overburdened with insufficient resources and personnel; they are unable to provide effective extension nor support for emerging clubs.

The transition from SACA to the new Rural Finance Corporation does not move smoothly, and the effective provision of credit to burley clubs falls victim to the process.

The burley clubs are not given adequate support to enable them to effectively serve their members. The result is that trust is diminished and their ability to act collectively declines. Members choose to market their burley through ADMARC, limiting both their own incomes and the infusion of cash into poor communities, or simply quit production, or continue to produce but to market through estates and fail to repay their loans.

This scenario is all too plausible to envision; elements of each is already a problem. But the scenario itself serves as a target for AID in its monitoring and project support activities that supplement the ASAP program. As the program expands, the organizational complexities and potential problems will increase. But there is no reason to assume that these problems will fatally weaken the program.

A Virtuous Cycle

If these are the negative possible scenarios, there is also a positive scenario -- essentially a virtuous cycle -- that the smallholder program could generate. Here is how the cycle develops:

The government recognizes that the costs to the economy of the operational principle of maximizing estate profits have become overwhelming and intolerable. The government is particularly concerned to diminish the "Dutch disease" effects of burley and to promote a dual strategy of export and domestic demand led diversification. The government decides to move in an orderly way to lower the returns to burley through increasing the burley production target, primarily by accelerating the expansion of the smallholder burley program.

The assumption is that expanded burley production will force Malawian exporters to develop customers who will only be willing to buy at lower prices. Expanding the production target creates the space for reestablishing the effectiveness of control mechanisms over production through a politically-sustainable rationalization of the quota allocation process, focusing on the themes of efficiency, transparency and equity. An aggressive public education campaign is mounted to explain why the quota is needed and exactly how it works.

The lowered returns to burley begins to weed out inefficient estate producers, while at the same time providing incentives for diversification of both export and domestic focused production and, especially, "market creation" efforts. For individual smallholders in the burley program, the returns also diminish, but the coverage of the program is expanded, and the total cash inflow into the poor communities on the customary lands is substantially increased.

Smallholders are able to utilize the cash income from burley to purchase sufficient fertilizer to expand their yields from hybrid maize beyond household consumption levels which, in turn, provides additional cash incomes. Alternatively, smallholders increase their maize production by using hybrid varieties but limit the amount of land planted to such varieties to that amount needed to assure household food supplies. The released land is then planted in other cash and food crops which improve their overall standard of living. The goods and services which they purchase from others increases income-earning opportunities off the farm.

Thus, the increased purchasing power in the hands of smallholder producers has several positive effects on other segments of the population as well. First, it puts upward pressure on both tenant prices and on wage levels in the estate sector; second, it provides a market for a wide range of simple consumer goods, and incentives for expanding the transportation sector and the marketing nexus serving the rural economy; and third it increases the employment opportunities within the customary lands by providing a context for micro-enterprise expansion.

Winners and Losers -- A Stakeholder Analysis

The ASAP program has affected a wide range of interests and groups in Malawi. In this section, I examine who has gained and lost from the program so far, and who is likely to gain and lose as the program evolves. This analysis begins from the assumption that it is not easy to disentangle actual program effects from other exogenous factors, but does so only in a crude and unscientific manner.

Burley Club Participants

It is unquestionably the case that smallholder burley club participants have benefitted from the program. In fieldwork undertaken in all parts of the country, among very different types of clubs, all participants interviewed believed that they had benefitted substantially from the program. These benefits are several: the most important is cash income; a second major benefit is enabling participants to purchase sufficient fertilizer for expanding yields on hybrid maize varieties; a third benefit is learning directly about participating in a competitive market-oriented environment.

That said, there is some evidence to suggest that the benefits to club participants has hardly been uniform. This is not surprising since the club participants are drawn from a very diverse group of farmers, who have little in common except their status in farming on customary land. In general, it appears that club participants tend to be drawn from the better-off members of local communities on the customary lands. This is not surprising, especially when the burley club experience is placed in the broader context of the expansion of burley production in recent years.

There is evidence that club members from the northern part of the country benefitted more than participants from the southern part of the country. In the north, the overall quality of burley production was higher, as was the percentage of clubs marketing their output through the auction floors. The individual quotas also tended to be higher in the north, as has been the opportunity for "illegal" production. In general, accessing auction floors depends upon achieving a high degree of group solidarity that enables collective action. In particular, it necessitates club members being willing to merge their output and to defer income that could be more immediate through the ADMARC channel. Initial evidence indicates that there may be a correlation between "wealth" and ability to undertake collective action through the burley club mechanism. If there are differences between clubs, there are also difference within clubs. While the evidence here is much softer, there is little doubt that some proportion of the clubs are operating in ways that skew the benefits towards the wealthier members of the clubs.

Non-participating Smallholders

In general, the smallholder burley program appears to be a positive-sum game for the poor communities within which it is operating. While the supportive evidence is still quite limited, it does appear that non-participating individuals and households in the customary lands may be gaining benefits from

the program as well. The main mechanism for this is probably the purchase of illegal maize by club members. The second major mechanism through which this takes place is the creation of employment on smallholder burley plots. Of smallholder participants interviewed, nearly one-half admitted to hiring labor to assist them. The actual figure may even be higher, since there was some indication that some participants might have felt that such hiring violated the rules of the program. It does not yet appear that the program has affected overall wage levels in the rural areas, although should it continue to expand it clearly has the potential to do so. Another way in which the program might be assisting non-participants is by providing a market for crops that they are growing. A final way is by facilitating the diffusion of hybrid maize. Non-participants are able to see directly on their neighbors farms the benefits of hybrid production.

But there may be some zero-sum elements to the program as well. If the program continues to expand, it might divert the resources of ADD staff away from their other activities that have focused on the diffusion of hybrid maize varieties, and are targeted on a wider group of farmers. At the same time, there is little doubt that the smallholder program is a source of conflict within the communities in which burley clubs have been formed. Non-participants do feel excluded, and the club mechanism does provide the opportunity for corruption in that clubs do exert some control over access to economic rents.

Small Estates

It is not easy to generalize about the small estates. They include both some of the most efficient "graduated smallholders" and some of the least efficient farmers, who owe their access to an estate license and burley quota to nothing more than political connections. For many, small estates are an adjunct to other businesses. Earlier research has suggested that in general the small estates both are less efficient than larger estates and are more dependent upon low wages and low tenant prices for their profitability. They will be not well-positioned to diversify if the returns to burley diminish. Those small estates who fit that mold are likely to be losers from the ASAP program as it is now constructed. Many small estates operate inefficient farms, and fall between the cracks in terms of access to both finance and extension services, being ineligible for the SACA finance and ADD extension services which are targeted to smallholders, but incapable of accessing commercial finance and not being reached by the estate extension trust. The small estates make up the bulk of the TAMA membership, and provide the constituency for that group's opposition to the smallholder program. As time goes on, the main risks that the smallholder program poses to the small estates are two-fold. First, if indeed the smallholder

program expands in such a way as to lower the returns to burley, the small estate operators will find their margins squeezed. Even if this does not occur, if the program serves to put upward pressure on tenant prices, and there is some tentative evidence that this may be already happening, then the small estates are also likely to be the most vulnerable.

Large Estates

Large estates also feel threatened by the burley program, but for quite different reasons. Large estates tend to be more efficient than smaller ones, tend to be less dependent upon low wages and tenant prices for profitability, and are better positioned to diversify. For all of these reasons, they are less fundamentally threatened by the smallholder program. In general, the large estate operators express views towards the smallholder program that are less hostile than small estate operators. But the large estates do fear two potential problems that come with the expansion of access to burley into the customary land sector. The first fear is that the smallholder program will exacerbate the problem of loss of control over the level of production, raising uncertainty for the industry as a whole. The second, and really the more direct fear, is that the smallholder program facilitates "wandering tobacco", i.e. the sale of estate tobacco by tenants to smallholders, who then can either market it directly as part of their quota or sell it back to the estate operator. The "wandering tobacco" problem derives from the large differential between the tenant burley price and the price that smallholders can fetch by selling to the auction floors. One possible answer to this is a modification of tenancy arrangements that would limit the incentives for such behavior. A discussion of such modifications is beyond the scope of this essay.

ADD Staff

ADD staff, in general, appear to be very supportive of the smallholder program. The program provides them an excellent "product" to promote, and the general success of the program increases their feeling of job satisfaction. In that sense, the ADD staff has been a "winner" from the ASAP program. As the program evolves, however, there is a danger that it could overwhelm the ADD staff in a number of ways. As mentioned above, the least desirable effect is the potential diversion of ADD staff attention away from hybrid maize and towards tobacco. A second is the heavy involvement of ADD staff in complex and difficult problems of quota management, both for the smallholder program and also for the estates. A third would be having to deal with complex issues of club organization and management, for which ADD staff are neither effectively trained nor inclined to undertake, but which might be forced upon them by circumstances.

Ministry of Agriculture Senior Staff

It is very difficult to assess whether ministry senior staff are "winners" or "losers" from the ASAP program. Given that the ASAP program challenges the status-quo of the rural social structure, and that historically the ministry has defended that status quo (and in many individual cases, benefitted from it), they are losers. They are also losers in the sense that individual senior ministry officials were important political linchpins in the structure of rewards that was built up around the estate license and burley quota. That said, the ASAP program does provide the opportunity for the ministry, and its senior staff, to play a much greater role in redefining public policy in a way that is both more equitable and more economically dynamic. In the past, the ministry has had to accommodate itself to the operational principle of maximizing estate profitability. The ASAP program, along with other donor activities and the general process of both socio-economic and political change, has put the question of alternative approaches on the agenda. As the environment continues to evolve, the ministry may be positioned to play a key technical role. Unfortunately, at present, they do not appear to be either capable or motivated to play such a role. In particular, the economic planning division lacks a dynamic view of its role and a vision of where it might be going. This will severely limit the ministry's capacity to play a proactive role in a process of policy redefinition.

The Political Elite

Malawi's top political leadership created a system of political patronage centering around their control over the granting of estate leases and burley licenses. As discussed above, by the late 1980s, with mounting pressure for access to produce and market burley tobacco, this control began to slip, with the result that thousands of "graduated smallholders" were able to enter the estate system. With the suspension of the creation of new estates, this traditional mechanism of political patronage by and large ceased to exist as a means for rewarding new entrants. Thus, the political value of the lease and license had already been devalued as a patronage instrument even before the ASAP program. In addition, the ASAP program has provided quick-disbursing foreign aid that is a high-value commodity to the political elite. The political risk assessment of the ASAP PAAD (undertaken by the present author) failed to fully grasp these facts, and overstated the risk of political de-railing of ASAP from above.

Nonetheless, the incumbent political elite have been losers in the program, in a couple of other ways. First, the core constituency of the Malawi Congress Party has been the

local elite, the bulk of whom tend to be small estate operators. To the extent that ASAP threatens the interests of those individuals that make-up the core of the MCP at local levels, it also weakens the position of the national political elite. Second, the Malawi political structure has been maintained by a massive disproportionality in the resources available to the political elite, on the one hand, and to the mass of the population, on the other. By opening up the system, if only at the margin, the ASAP program begins to erode this disproportionality.

But if the political elite have broadly "lost" from the program, that does not necessarily mean that they will actively oppose its maintenance and expansion. In fact, in an era of political liberalization with the possibility of multi-party competition, it may be very difficult for any party to oppose a program such as ASAP. It is not inconceivable that the ASAP program might become, in the rhetoric of the MCP, one of their major recent accomplishments on behalf of Malawi's poor farmers!!

TAMA

The tobacco growers association - TAMA - is by far the best-organized interest association in the country. It is dominated by the smaller, numerically-predominant estates which tend to be less efficient and depend upon low tenant burley prices for their profitability. Earlier we discussed the evolution in TAMA's role from a producers cartel with an interest in limiting production to maximize rents to a more politically-driven organization that has accommodated and managed the pressures for entry into the estate sector. While TAMA is no longer serious about limiting production, they are very concerned with maintaining low tenant prices and low wages for laborers. For this reason, they correctly perceive themselves as losers from the ASAP program. TAMA has both led the opposition to the smallholder program since its inception, and is the main promoter of the myth that it is the smallholder program that is driving the overproduction of burley. But, at the same time, TAMA has expressed an interest in "representing" the interests of the smallholders in discussions with government and other members of the industry. There is no reason to believe that TAMA would have any interest or capacity to actually do this, and the offer should not be taken up.

ADMARC

The Agricultural Development and Marketing Corporation (ADMARC) played the historic role of taxing smallholder production of tobacco (through its pricing structure) to support the expansion of the estate sector (through its formerly extensive investments in estates). Thus, ADMARC had a

major role in the creation of Malawian "dualism". In recent years, as part of a series of World Bank policy reform operations, the role of ADMARC has evolved. It no longer has a major investment role, and its official monopoly in a series of commodity markets has been withdrawn. ADMARC's main role is now food security and price stabilization. But, ADMARC continues to operate a profitable commercial account in tobacco. ADMARC has been a "loser" from the ASAP program in two ways. First, the program has facilitated a shift out of non-burley tobaccos (the source of ADMARC's marketing profits) towards the production, both legal and illegal, of burley. Second, with regard to burley, by opening multiple marketing channels, the ASAP program has diminished ADMARC's market share of smallholder burley and forced it to be more price competitive, also reducing its marketing profits. In addition, ADMARC senior officials perceive the ASAP program as another in a series of "anti-ADMARC" donor programs.

Tenants

Under the ASAP program, tenants on estate farms are identified as a major targeted beneficiary. As designed, the tenants were to benefit in two ways. First, the program sought to make transparent, and enforce, a set of standards in the terms and conditions of employment and in the determination of prices paid to tenants for tobacco. Second, the program sought to put upward pressure on tenant prices through the competitive effects of the smallholder program. Unfortunately, the elements of the program that are directly focused on tenants have been slow in implementation, and become more significant at a later phase of the program. In addition, the indirect impact of the smallholder burley program on tenants can only be expected to be felt after a time lag. It has been suggested that the level of price increases for tenant tobacco that have been announced for this growing season may be higher than would have been expected in the absence of the smallholder program.

The Tobacco Industry

The tobacco industry in Malawi is neither a winner nor a loser from the ASAP program. The "industry" comprises a wide range of players, from exporters to processors to transporters to financiers. In general, the industry recognizes that the burley tobacco sub-sector is in flux, and is faced with some fundamental problems. But, the industry is also very flexible and can accommodate itself to a wide range of outcomes in terms of who grows the crop and how it is marketed. The "industry" in that sense is not committed to maintenance of the status-quo. Representatives of the industry recognize that in many other countries, burley is predominantly a smallholder crop. Broadly speaking, the industry is worried about the maintenance of quality and the maintenance of a coherent process of

marketing. They worry that the overproduction of burley may be the source of growing chaos in the marketing arrangements. Certain elements of the industry (especially the banks) are also very concerned about price trends, given that they are highly leveraged, in some cases against what are admitted to be not very efficient producers.

The ASAP Program and the Political Transition

During the past year, the winds of political change that have blown across the African continent reached Malawi. Of course, it is too soon to determine where the process of political liberalization will take Malawi. Democratization needs to be analytically separated from the breakdown of authoritarian rule, i.e. political liberalization. In an authoritarian political setting, political liberalization is a necessary, but not sufficient, condition for democratization. In contemporary Africa, liberalization and democratization are simultaneous and complementary, but ultimately autonomous processes. It is entirely possible that liberalization can occur without leading to democratization. The disintegration of authoritarian rule may be followed by anarchy or intensified corruption rather than stable governance and democracy. The transitory nature of previous experiments with democracy in countries such as Nigeria, Ghana, Uganda and Sudan should dampen any expectations concerning the inevitable success of democracy in Malawi in the near future.

If the general trend in Malawi is that of protest and reform, it must be remembered that the outcome of this process is very unclear. It is still very early days in the political reform process in Malawi and we do not know where the winds of change will land the country. While there is a consensus that Malawi needs more competent and democratic governance, the conditions in the country may not necessarily be conducive to creating them. It is not clear that Malawi is likely to yield in the near future a stable democracy capable of checking the personalistic and authoritarian tendencies that now prevail. Just as the cultural, political, historical and socioeconomic conditions in Malawi have not been fertile ground for nourishing a strong developmental thrust, they may not be favorable to democracy either.

Malawi's social structure unfortunately provides a weak base for the construction of a democratic polity. A large and poor peasantry, a small industrial working class, and a tiny privileged group of state-dependent estate-owners, bureaucrats, politicians, professionals, and businessmen, does not make up a class structure that disperses power and facilitates political accommodation. In such a social context,

economic transactions are easily politicized and politicians and their followers view political struggles as a zero-sum game. On the other hand, the high level of discipline and the civility that mark the Malawian political culture may encourage a democratic outcome and counteract a seemingly inappropriate social base.

But while the future of democracy is thus unclear in Malawi, recent events have put new issues and ideas on the nation's political agenda. These include the end of arbitrary arrests and political repression, the recognition of basic civil and political liberties, and greater transparency and accountability in public decision-making. The projection of these governance issues into open public debate is certainly a positive outcome of recent events. It suggests that even a little democratization is almost inevitably a good thing.

The ASAP program has certainly been in resonance with the trends of political liberalization. Its themes of breaking down barriers to entry to high-value crops; expanding information available to farmers, tenants and laborers; and creating a broader-based development strategy provide support for a more open political system. Several burley club participants spoke of the opening to grow burley and the new political freedom as part of the same process of breakdown of control by the existing regime.

How might the evolution of the political transition affect the future of the ASAP program. (This, of course, involves two levels of speculation; the first, on the course of the political transition, the second, on its possible impact!!) The largest political risk to the program is that political decay and chaos arise. While the process does not now appear to be headed in such a direction, its spectre lies just beneath the surface. What might happen, for instance, if Dr. Banda dies in the next couple of months? What might happen if, after an election, the opposition believes that severe electoral rigging precluded their rise to power?

At the international level, it is highly unlikely that quick-disbursing balance-of-payments type support will be available to support ASAP, and similar efforts by other donors, in the absence of continued progress on the political front. In the absence of such support, it is not clear that real momentum can be gained to move beyond the "foot in the door approach" of ASAP and other current donor efforts. If, on the other hand, the political progress moves forward, there is likely to be considerable fast-disbursing support available for equity-oriented programs such as ASAP.

At the domestic level, a number of predictions appear to be fairly straight-forward:

First, as long as the current political opening continues, the political clampdown scenario discussed above is clearly impossible.

Second, the rise of political competition, and the likelihood that the next several months might witness the emergence of multi-party contestation for power, will create a powerful incentive to ensure that all of the present burley crop is purchased, one way or another. In almost every African country where competitive politics has emerged, one cost has been the loss of monetary discipline. The regime will almost certainly want to avoid the political cost of producers being unable to sell their crop.

Third, in the short run, political liberalization, by expanding information flows and lowering the degree of direct political controls, will inevitably reinforce the existing pressures towards overproduction of burley.

There are also a number of more speculative hypotheses that can be raised about the possible impact of political change upon the evolution of the ASAP program:

It is probable that democratic regime change would lead to an opportunity to expand the ASAP program to address a much wider set of policy and institutional reform issues. For instance, in a more open environment, there would be an opportunity to address directly the quota allocation issue in a way that might enable a reestablishment of more effective control over production. This is not to suggest that these issues would be easy to resolve. In discussions with the AFORD Northern Region leadership, it was clear that the estate owners among the AFORD leadership view burley tobacco issues in a manner that is little different from MCP estate owners. But, because of the linkage between the quota system and the existing regime, political change would give incentives for reform. Similarly, under a non-MCP regime, there would be a real opportunity to initiate a much more fundamental reform in the role of ADMARC, given the close association between ADMARC and the MCP.

On the other hand, it may be the case that targeting the expansion of burley production towards the very poor and towards women may, in fact, be more difficult in a more democratic context. A more open environment would encourage self-starting initiatives. Those most capable of taking up such initiatives are not the very poor. When, in the 1960s and 1970s, Kenya had a more open political system that encouraged

self-help initiatives, it was communities in the more prosperous regions that were able to take advantage of the opportunities. Consider, in the context of some kind of AFORD/UDF coalition government, how difficult it will be to continue to diminish the proportion of the smallholder quota given to the Northern region.

If the political opening continues, the question of political representation for smallholder burley producers will come increasingly to the fore. In a closed political environment, the donors have taken it upon themselves to push these interests against a recalcitrant government. In a more democratic context, such external representation may become less politically viable. In such a context, if smallholders are going to be able to be effectively represented, there will need to be a domestic institutional voice for them. Should this be a Steven Carr - style Smallholder Tobacco Authority? I do not know. But, as mentioned earlier, TAMA cannot be such an instrument.

There will undoubtedly be other ways in which the political opening will impact upon the ASAP program. In general, political liberalization produces a degree of uncertainty that complicates the economic reform process. The environment simply becomes less predictable. But, if one is forced to look at the big picture, because of the nature of the reforms addressed under ASAP, it is much more likely that a continued political opening will enhance the prospects for the program rather than limit them.